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Oil Situation Report No. 15 from State Dept Operations Center.

(OC/T: Please transmit the attached Situation Report No. 15 of the Oil Task Force to the above addressees.)

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DRAFTED BY:	DRAFTING DATE	TEL. EXT.	APPROVED BY:
Oil Task Force	1/28/71	23172	S/S-O: R.D. Emmons

CLEARANCES:

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INFO AMEMBASSY CARACAS PRIORITY
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EXDIS

OIL SITUATION REPORT NO. 15 FROM STATE DEPT OPERATIONS CENTER.

SITUATION REPORT 15 AS OF 1500 HOURS, EST, JAN 28, 1971

1. OIL INDUSTRY NEGOTIATIONS IN TEHRAN

THE OIL COMPANIES REPORT THAT THE INDUSTRY PROPOSALS WERE PRESENTED IN TEHRAN AND TRIPOLI ON JAN 28. PRIOR TO THIS, ON JAN 27, STRATHALMOND SAW AMOUZEGAR AND DISCUSSED THE INDUSTRY'S DRAFT LETTER. THE LETTER HAD POINTED OUT THAT

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ONE SET OF NEGOTIATIONS MIGHT TAKE LONGER THAN THE OTHER, AND HAD EXPRESSED THE HOPE THAT IF AN AGREEMENT WERE REACHED AND INITIALED FIRST IN THE PERSIAN GULF, A REASONABLE TIME COULD BE ALLOWED TO PASS TO ENABLE THE INDUSTRY TO REACH AGREEMENT WITH LIBYA. THE INDUSTRY RECOGNIZED THIS MIGHT NOT BE POSSIBLE AND THAT AGREEMENT WITH THE GULF MIGHT HAVE TO BE FINALIZED BEFORE THE LIBYAN ONE. IN THAT CASE, THE INDUSTRY ASKED THAT THE GULF PRODUCERS ATTEMPT TO CONVINCE THE LIBYANS TO BE REASONABLE AND TO TAKE THE POSITION WITH THEM THAT THE GULF AGREEMENT WAS EQUITABLE AND ACCEPTABLE.

AMOUZEGAR TOLD STRATHALMOND THAT A REASONABLE TIME WOULD BE ABOUT A MONTH, AND THAT THE DATE OF INITIALING MUST BE THE EFFECTIVE DATE OF AGREEMENT. AMOUZEGAR DOUBTED THAT MEDITERRANEAN TERMS FOR SAUDI AND IRAQI CRUDES COULD BE FIXED IN HIS COMMITTEE, AND STRESSED THE IMPORTANCE OF ARRANGING FOR CRUDE PRICES TO MOVE WITH PRODUCT PRICES. OPEC POINTS 4 AND 5 (DISPARITIES AND ALLOWANCES) REMAIN AT ISSUE BUT IN ABEYANCE FOR THE TIME BEING.

THE INDUSTRY'S DETAILED PROPOSALS, MADE ON JAN 28, WERE AS FOLLOWS:

(1) A GENERAL INCREASE IN POSTED PRICES OF CRUDE OILS PRODUCED IN MIDDLE EASTERN AND AFRICAN MEMBER COUNTRIES OF OPEC OF 15 CENTS PER BARRELL.

(2) ON JULY 1, 1972 AND IN EACH SUCCEEDING YEAR THE NEW PRICES WILL BE ADJUSTED TO REFLECT CHANGES IN THE UN VALUE INDEX OF EXPORTS FROM DEVELOPED TO DEVELOPING AREAS.

(3) A TEMPORARY TRANSPORTATION SUPPLEMENT WILL BE ADDED TO THE POSTED PRICES OF MEDITERRANEAN CRUDES. THIS IS ESTIMATED FOR THE FIRST QUARTER OF 1971 AT DOLS 1.40 PER LONG TON FOR LIBYAN CRUDES AND DOLS 1.30 PER LONG TON FOR CRUDES EXPORTED FROM EASTERN MEDITERRANEAN TERMINALS.

(4) BECAUSE OF THE MAGNITUDE OF THE PAYMENTS INVOLVED IN THE ABOVE PROPOSALS THE COMPANIES ARE UNABLE TO MAKE ANY PROPOSALS CONCERNING THE ELIMINATION OF DISPARITIES IN POSTED PRICES, THE NEW SYSTEM OF GRAVITY DIFFERENTIALS, AND THE ELIMINATION OF OPEC ALLOWANCES.

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(5) NO FURTHER INCREASES IN TAX, ROYALTY, ETC. OR ANY NEW IMPOSITIONS, NO ADDITIONAL RETROACTIVE PAYMENTS, AND NO NEW PROVISIONS FOR OBLIGATORY REINVESTMENT OR REMITTANCE TO THE OPEC COUNTRIES OF PROFITS EARNED BY OIL COMPANIES;

(6) IF ACCEPTED, ABOVE PROPOSALS TO BE VALID AND BINDING FOR A FIVE-YEAR PERIOD.

2. OPEC PERSIAN GULF COMMITTEE REACTION.

THE INDUSTRY NEGOTIATORS IN TEHRAN EMERGED FROM THE FIRST GULF NEGOTIATING SESSION WITH THE IMPRESSION THAT THE SITUATION WAS "GLOOMY BUT NOT HOPELESS." IN BRIEF, THE OPEC SUBCOMMITTEE:

(1) ASKED FOR A POSTED PRICE INCREASE OF 54 CENTS;

(2) WOULD NOT AGREE TO DISCUSS MEDITERRANEAN POSTED PRICES F[illegible] IRAQI AND SAUDI SHORT-HAND CRUDES; THEY WANT WHATEVER L[illegible] GETS;

(3) INSISTED THAT A FREIGHT FORMULA FOR LIBYA WHICH RESULTED IN A FUTURE POSSIBLE DECREASE IN THE LIBYAN PRICE MUST BE PUT INTO EFFECT WITH CONSEQUENT DECREASE FOR LIBYA OR GULF POSTED PRICES MUST BE CORRESPONDINGLY INCREASED;

(4) SAID NO FURTHER PRODUCT PRICE INCREASES SHOULD ENSUE AS A RESULT OF GENERAL POSTED PRICE INCREASES;

(5) PREFERRED A DEFINED YEARLY "INFLATION" INCREASE RATHER THAN AN ESCALATOR CLAUSE TIED TO THE UN COMMODITY INDEX.

AT THE TIME OF THE MEETING THE LEGAL EXPERTS WERE STILL WORKING ON THE QUESTION OF DEFINING THE ASSURANCES AGAINST LEAPFROGGING WHICH THE GULF COUNTRIES MIGHT GIVE THE INDUSTRY. THERE WILL BE ANOTHER MEETING FRIDAY, JAN 29, AT WHICH TIME STRATHALMOND TOLD THE EMBASSY HE REALLY HAD NOTHING NEW TO TABLE. STRATHALMOND HAS REPORTED TO HIS PRINCIPALS

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3. MEETING IN LIBYA.

PIERCY (HEAD OF THE INDUSTRY NEGOTIATORS) MET WITH OIL MINISTER MABRUK AND UNDER SECRETARY QIBLAWI. THE REMAINDER OF THE COMPANY TEAM WAS NOT ALLOWED TO ATTEND, AND PIERCY WAS RECEIVED ONLY AS A REPRESENTATIVE OF ESSO. DEPUTY PRIME MIN JALLUD WAS NOT AVAILABLE. THE LIBYAN OFFICIALS WOULD NOT RECEIVE THE INDUSTRY PROPOSAL, ALTHOUGH THEY SAID IT COULD BE MAILED TO THEM. THEY MAINTAINED THAT THIS CARTEL THE INDUSTRY HAD SET UP WAS A GREAT MISTAKE. PIERCY REPLIED THAT THIS APPROACH WAS STARTED BY THE PRODUCING COUNTRIES WHEN THEY SET UP OPEC. THE LIBYANS MENTIONED SEVERAL TIMES THAT THEY WOULD CALL IN THE DIFFERENT COMPANIES INDIVIDUALLY OR IN SMALL GROUPS AND PIERCY REPLIED THAT THE COMPANIES WOULD ALL GIVE THE SAME ANSWERS. MABRUK INDICATED A DANGEROUS SITUATION WOULD EXIST IF A SETTLEMENT WAS NOT REACHED BY FEB 3. THE SHORT MEETING ENDED WHEN MABRUK SAID HE HAD TO ATTEND A MEETING OF THE COUNCIL OF MINISTERS. IT SEEMS OBVIOUS THAT THE LIBYANS HAVE NOT YET DECIDED WHAT TO DO.

4. ALGERIAN-FRENCH NEGOTIATIONS.

THE ALGERIAN PRESS [redacted] HAS BEEN CONDUCTING A CAMPAIGN APPARENTLY DESIGNED TO HURRY THE NEGOTIATIONS AND IN PARTICULAR TO PRESSURE THE FRENCH INTO OFFERING AN IMMEDIATE PAYMENT LARGER THAN THE DOLS 100 MILLION THEY HAVE OFFERED. ACCORDING TO THE PRESS, "ENORMOUS SUMS OWED TO ALGERIA REMAIN FROZEN IN THE ACCOUNTS OF THE FRENCH STATE AND (OIL) COMPANIES." ANOTHER ARTICLE PUTS THESE SUMS AT DOLS 200 MILLION. ALGERIA'S MINISTER OF INDUSTRY AND ENERGY WENT TO LIBYA JAN 26 TO "MAINTAIN THE COMMON FRONT."

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BOTH THE FRENCH AND THE ALGERIANS APPEAR TO BE BACKING UP THEIR NEGOTIATING POSITIONS BY IMPLYING THAT IN ONE WAY OR ANOTHER THE U.S. GOVT IS

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5. TAPLINE REOPENING

BEIRUT REPORTS THAT THE SYRIANS HAVE GIVEN THE GREEN LIGHT FOR REPAIRS TO TAPLINE. WELDING CREWS FROM LEBANON HAVE ARRIVED IN SYRIA. DETAILS OF THE SETTLEMENT ARE NOT YET FULLY AVAILABLE. ROGERS

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